

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: <u>Hillsdale County Medical Care Facility</u>	County Hillsdale
Audit Date December 31, 2004	Opinion Date March 11, 2005	Date Accountant Report Submitted To State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): <b>PLANTE &amp; MORAN, PLLC</b>			
Street Address 750 Trade Centre Way, Suite 300	City Portage	State MI	ZIP 49002
Accountant Signature 			

# **Hillsdale County Medical Care Facility**

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**Financial Report  
with Additional Information  
December 31, 2004**

# Hillsdale County Medical Care Facility

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## Contents

<b>Report Letter</b>	<b>I</b>
<b>Financial Statements</b>	
Balance Sheet	2
Statement of Revenue, Expenses, and Changes in Net Assets	3
Statement of Cash Flows	4-5
Notes to Financial Statements	6-13
<b>Additional Information</b>	<b>14</b>
<b>Report Letter</b>	<b>15</b>
Schedule of Net Service Revenue	16
Schedule of Operating Expenses	17



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## Independent Auditor's Report

To the Hillsdale County Department  
of Human Services Board  
Hillsdale County Medical Care Facility

We have audited the accompanying balance sheet of Hillsdale County Medical Care Facility (a component unit of Hillsdale County) as of December 31, 2004 and 2003 and the related statements of revenue, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Facility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hillsdale County Medical Care Facility at December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of, the basic financial statements.

*Plante & Moran, PLLC*

March 11, 2005



A worldwide association of independent accounting firms

# Hillsdale County Medical Care Facility

## Balance Sheet

	December 31, 2004	December 31, 2003
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 2)	\$ 21,591	\$ 262,952
Resident accounts receivable (Note 3)	2,082,435	1,149,516
Taxes receivable	657,863	605,650
Other current assets	86,430	99,378
Total current assets	2,848,319	2,117,496
<b>Assets Limited as to Use</b> (Note 2)	-	155,368
<b>Property and Equipment</b> (Note 4)	3,761,976	3,992,423
Total assets	<u>\$ 6,610,295</u>	<u>\$ 6,265,287</u>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 245,909	\$ 278,463
Due to County	1,028,337	-
Current portion of long-term debt (Note 5)	95,000	90,000
Funds held for residents	17,493	13,678
Accrued liabilities and other:		
Accrued compensation and related liabilities	112,336	306,748
Accrued compensated absences	204,710	189,472
Accrued workers' compensation liability	200,000	200,000
Deferred revenue	49,070	92,344
Deferred taxes	657,863	605,650
Other accrued liabilities	350,560	215,454
Total current liabilities	2,961,278	1,991,809
<b>Long-term Debt</b> (Note 5)	1,790,000	1,885,000
<b>Net Assets</b>		
Invested in capital assets - Net of related debt	1,876,975	2,017,423
Unrestricted	(17,958)	371,055
Total net assets	1,859,017	2,388,478
Total liabilities and net assets	<u>\$ 6,610,295</u>	<u>\$ 6,265,287</u>

# Hillsdale County Medical Care Facility

## Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended	
	December 31, 2004	December 31, 2003
<b>Operating Revenue</b>		
Net service revenue	\$ 10,005,893	\$ 9,326,789
Other operating revenue	46,841	44,311
Proportionate share reimbursement	328,820	234,303
Total operating revenue	10,381,554	9,605,403
<b>Operating Expenses</b>		
Salaries	6,227,506	6,022,163
Other expenses	5,247,956	4,791,130
Total operating expenses	11,475,462	10,813,293
<b>Operating Loss</b>	(1,093,908)	(1,207,890)
<b>Other Income (Expenses)</b>		
Interest income	1,758	30,753
Gain (loss) on sale of property	(14,458)	-
Noncapital grants and contributions	64,240	52,975
Tax revenue	601,818	576,648
Interest expense	(88,911)	(92,285)
Total other income	564,447	568,091
<b>Decrease in Net Assets</b>	(529,461)	(639,799)
<b>Net Assets - Beginning of year</b>	2,388,478	3,028,277
<b>Net Assets - End of year</b>	<u>\$ 1,859,017</u>	<u>\$ 2,388,478</u>

# Hillsdale County Medical Care Facility

## Statement of Cash Flows

	Year Ended	
	December 31, 2004	December 31, 2003
<b>Cash Flows from Operating Activities</b>		
Cash received from residents and third-party payors	\$ 9,072,974	\$ 9,351,970
Cash paid to employees and suppliers	(11,250,670)	(10,450,636)
Cash received from Proportionate Share Program	285,546	185,764
Other operating receipts	46,841	44,311
Net cash used in operating activities	(1,845,309)	(868,591)
<b>Cash Flows from Noncapital Financing Activities</b>		
Resident trust deposits (withdrawals)	3,815	(3,064)
Contributions	64,240	52,975
Tax revenue	601,818	576,648
Net cash provided by noncapital financing activities	669,873	626,559
<b>Cash Flows from Investing Activities</b>		
Purchase of investments	-	(14,359)
Interest received	1,758	30,753
Net cash provided by investing activities	1,758	16,394
<b>Cash Flows from Capital and Related Financing Activities</b>		
Principal payments on long-term debt	(90,000)	(85,000)
Interest paid on long-term debt	(88,911)	(92,285)
Purchase of property and equipment	(72,477)	(678,644)
Funds borrowed from County	1,028,337	-
Net cash provided by (used in) capital and related financing activities	776,949	(855,929)
<b>Net Decrease in Cash and Cash Equivalents</b>	(396,729)	(1,081,567)
<b>Cash and Cash Equivalents - Beginning of year</b>	418,320	1,499,887
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 21,591</b>	<b>\$ 418,320</b>
<b>Balance Sheet Classification of Cash</b>		
Current assets	\$ 21,591	\$ 262,952
Assets limited as to use	-	155,368
<b>Total cash</b>	<b>\$ 21,591</b>	<b>\$ 418,320</b>

# Hillsdale County Medical Care Facility

## Statement of Cash Flows (Continued)

	Year Ended	
	December 31, 2004	December 31, 2003
<b>Reconciliation of Operating Loss to Net Cash from Operating Activities</b>		
Operating loss	\$ (1,093,908)	\$ (1,207,890)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation	288,466	253,177
Provision for bad debts	164,981	361,367
Increase in resident accounts receivable	(1,097,900)	(336,186)
Decrease in other current assets	12,948	8,309
Increase (decrease) in accounts payable	(32,554)	44,758
Increase (decrease) in other accrued expenses	(44,068)	56,413
Decrease in deferred revenue - Proportionate Share Reimbursement Program	(43,274)	(48,539)
Net cash used in operating activities	<u><u>\$ (1,845,309)</u></u>	<u><u>\$ (868,591)</u></u>

There were no significant noncash investing, capital, and financing activities for 2004.

At December 31, 2003, construction in progress included \$46,838 financed by accounts payable.



# Hillsdale County Medical Care Facility

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## Notes to Financial Statements December 31, 2004 and 2003

### **Note 1 - Nature of Business and Significant Accounting Policies**

Hillsdale County Medical Care Facility (the "Facility") is a 160-bed, long-term care facility owned and operated by Hillsdale County (the "County"). The Facility is a component unit of the County of Hillsdale. The Facility is governed by the Hillsdale County Family Independence Agency Board. This board consists of three members, two of whom are appointed by the County Board of Commissioners and one appointed by the Michigan governor. Further, the County Board of Commissioners approves the Facility's revenue and expenses as a line item in the County budget.

The accounting policies of the Facility conform to accounting principles generally accepted in the United States of America as applicable to local governmental units. Because the Facility provides a service to citizens that is financed primarily by a user charge, the Facility uses Enterprise Fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

**Enterprise Fund Accounting** - The Facility uses Enterprise Fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Facility has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

**Basis for Presentation** - The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, issued in June 1999. The Facility follows the "business-type" activities reporting requirements of GASB Statement No. 34, which provides a comprehensive look at the Facility's financial activities.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents** - Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less.

# Hillsdale County Medical Care Facility

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## Notes to Financial Statements December 31, 2004 and 2003

### **Note 1 - Nature of Business and Significant Accounting Policies (Continued)**

**Assets Limited as to Use** - Assets limited as to use consist of cash and cash equivalents designated by the Family Independence Agency Board for future capital improvement, over which the board retains control, and may, at its discretion, subsequently use for other purposes.

**Property and Equipment** - Property and equipment purchases are recorded at cost. Donated property and equipment are recorded at the estimated fair market value at the time of donation. Depreciation is computed principally on the straight-line basis over the estimated useful lives of the assets. Equipment under capital leases is amortized on the straight-line method over the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Costs of maintenance and repairs are charged to expense when incurred.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, and are excluded from the excess of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

**Resident Trust Liability** - The State Department of Treasury requires facilities to administer and account for monies of residents. The resident trust liability on the balance sheet represents resident trust fund deposits at December 31, 2004 and 2003.

**Compensated Absences** - Compensated absences are charged to operations when earned. Unused benefits are recorded as a current liability in the financial statements.

**Net Assets** - Net assets of the Facility are classified in two components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

# Hillsdale County Medical Care Facility

## Notes to Financial Statements December 31, 2004 and 2003

### Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Service Revenue - The Facility's principal activity is operating a long-term health care facility for the elderly. Revenue is derived from participation in the Medicaid and Medicare programs, as well as from private pay residents. Amounts earned under the Medicaid and Medicare programs are subject to review and audit by the third-party payors, and make up a significant portion of revenue earned during each year, as follows:

	2004	2003
Percent of revenue:		
Medicaid	81 %	81 %
Medicare	9 %	9 %

The payment methodology related to these programs is based on cost and clinical assessments that are subject to review and final approval by Medicaid and Medicare. Any adjustment that is a result of this final review and approval will be recorded in the period in which the adjustment is made. In the opinion of management, adequate provision has been made for any adjustments that may result from such third-party review.

Services rendered to Medicare program beneficiaries are paid at prospectively determined rates based upon clinical assessments completed by the Facility that are subject to review and final approval by Medicare. Medicaid reimburses the Facility for resident routine service costs, on a per diem basis, prospectively determined.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes they are in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoings. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

**Proportionate Share Reimbursement Program** - During the years ended December 31, 2004 and 2003, the Facility participated in this program sponsored by the State of Michigan.

In 2004, two transactions were completed. The first transaction in June was recorded in revenue in relation to the state fiscal year ended September 30, 2004. The second transaction in October was for the state fiscal year ending September 30, 2005 and therefore was recognized one-quarter in revenue and three-quarters in deferred revenue.

# Hillsdale County Medical Care Facility

## Notes to Financial Statements December 31, 2004 and 2003

### Note 1 - Nature of Business and Significant Accounting Policies (Continued)

**Property Taxes** - Taxes are levied on December 1 and payable by February 15. The cities and townships within the County bill and collect the property taxes for the County. Property taxes billed during the month of December will be used to finance the following year's operations. As such, these taxes are recorded as deferred revenue at December 31. The Facility has had voter approval to levy up to \$.59 per \$1,000 of assessed valuation for the purpose of general operations of the Facility.

**Maintenance of Effort** - Maintenance of Effort (M.O.E.) is a County obligation to the State of Michigan. Every month, the County receives a bill from the State of Michigan for each Medicaid resident day approved by the State during that month. M.O.E. is being paid by the Facility and is recorded in operating expenses. M.O.E. expense amounted to \$447,196 and \$520,925 for the years ended December 31, 2004 and 2003, respectively.

**Reclassification** - Certain 2003 amounts have been reclassified to conform to the 2004 presentation.

### Note 2 - Deposits

The Facility's deposits are composed of the following:

	2004		2003	
	Cash	Cash Limited as to Use	Cash	Cash Limited as to Use
Deposits:				
County	\$ 4,096	\$ -	\$ 249,274	\$ 155,368
Bank	17,495	-	13,678	-
Total	<u>\$ 21,591</u>	<u>\$ -</u>	<u>\$ 262,952</u>	<u>\$ 155,368</u>

**Cash - County Treasurer** - These funds were under the control of the County Treasurer, who deposited these funds with a bank. It is impractical to determine the amount covered by federal depository insurance as these funds are only a portion of the entire County deposits.

**Cash - Bank** - The deposits are reflected in the accounts of the bank (without recognition of checks written, but not yet cleared, or of deposits in transit) at \$270,580 and \$39,593 at December 31, 2004 and 2003, respectively. The federal depository insurance coverage pertains to all the deposits of the County; hence, the specific coverage pertaining to the Facility's deposits is not determinable.

# Hillsdale County Medical Care Facility

## Notes to Financial Statements December 31, 2004 and 2003

### Note 3 - Resident Accounts Receivable

The details of resident accounts receivable are set forth below:

	2004	2003
Resident accounts receivable:	\$ 1,515,190	\$ 2,214,428
Uncollectible accounts	(450,000)	(700,000)
Medicaid interim payment (advances) receivable	1,017,245	(364,912)
Net resident accounts receivable	<u>\$ 2,082,435</u>	<u>\$ 1,149,516</u>

The Facility provides services without collateral to its residents, most of whom are local residents and insured under third-party payor agreements. The mix of receivables from residents and third-party payors is as follows:

	2004	2003
Medicare	32 %	28 %
Medicaid	57 %	65 %
Other payors	11 %	7 %
Total	<u>100 %</u>	<u>100 %</u>

### Note 4 - Property and Equipment

Cost of property and equipment and related depreciable lives for December 31, 2004 are summarized below:

	2003	Additions	Transfers	Retirements	2004	Depreciable Life - Years
Land and land improvements:	\$ 29,524	\$ -	\$ -	\$ -	\$ 29,524	10-25
Building	6,282,705	62,315	489,447	(197,335)	6,637,132	10-40
Equipment	709,262	10,162	-	(258,287)	461,137	4-20
Construction in progress	489,447	-	(489,447)	-	-	
Total	7,510,938	72,477	-	(455,622)	7,127,793	
Less accumulated depreciation:						
Land improvements	29,524	-	-	-	29,524	
Building	2,968,432	248,234	-	(185,706)	3,030,960	
Equipment	520,559	40,232	-	(255,458)	305,333	
Total	3,518,515	288,466	-	(441,164)	3,365,817	
Net carrying amount	<u>\$ 3,992,423</u>	<u>\$ (215,989)</u>	<u>\$ -</u>	<u>\$ (14,458)</u>	<u>\$ 3,761,976</u>	

# Hillsdale County Medical Care Facility

## Notes to Financial Statements December 31, 2004 and 2003

### Note 4 - Property and Equipment (Continued)

Cost of property and equipment and related depreciable lives for December 31, 2003 are summarized below:

	2002	Additions	Transfers	Retirements	2003	Depreciable Life - Years
Land and land improvements:	\$ 29,524	\$ -	\$ -	\$ -	\$ 29,524	10-25
Building	6,136,436	146,269	-	-	6,282,705	10-40
Equipment	619,496	89,766	-	-	709,262	4-20
Construction in progress	-	489,447	-	-	489,447	
Total	6,785,456	725,482	-	-	7,510,938	
Less accumulated depreciation:						
Land improvements	29,524	-	-	-	29,524	
Building	2,752,278	216,154	-	-	2,968,432	
Equipment	483,536	37,023	-	-	520,559	
Total	3,265,335	253,177	-	-	3,518,512	
Net carrying amount	\$ 3,520,118	\$ 472,305	\$ -	\$ -	\$ 3,992,423	

### Note 5 - Long-term Debt

Long-term liability activity for the year ended December 31, 2004 was as follows:

	2003	Current Year Additions	Current Year Reductions	2004
Bonds payable - Series 1998	\$ 1,975,000	\$ -	\$ (90,000)	\$ 1,885,000

Long-term liability activity for the year ended December 31, 2003 was as follows:

	2002	Current Year Additions	Current Year Reductions	2003
Bonds payable - Series 1998	\$ 2,060,000	\$ -	\$ (85,000)	\$ 1,975,000

The bonds payable are summarized as follows:

- The Facility has entered into an agreement with the Hillsdale County Building Authority to make all principal and interest payments on \$2,300,000 in bonds issued during 1998 to construct an addition to the Facility. Principal payments range from \$95,000 in 2005 to \$185,000 in 2018 and interest rates range from 4.60 percent to 4.625 percent annually.

# Hillsdale County Medical Care Facility

## Notes to Financial Statements December 31, 2004 and 2003

### Note 5 - Long-term Debt (Continued)

The following is a schedule by years of bond principal and interest as of December 31, 2004:

<u>Years</u>	<u>Bond Payable</u>	<u>Bond Interest</u>
2005	\$ 95,000	\$ 84,656
2006	100,000	80,171
2007	105,000	75,456
2008	110,000	70,511
2009	115,000	65,336
2010-2014	675,000	239,051
2015-2018	<u>685,000</u>	<u>65,308</u>
Total payments	<u>\$ 1,885,000</u>	<u>\$ 680,489</u>

### Note 6 - Retirement Benefits

As disclosed in Note 1, the Facility is a component unit of Hillsdale County. Hillsdale County, including the Facility, participates in the Hillsdale County Employees Retirement Plan, a defined contribution pension plan that covers all employees of the County. The plan provides retirement and death benefits to plan members and their beneficiaries. This information can be requested by writing to: County of Hillsdale, Courthouse, 29 N. Howell, Hillsdale, MI 49242.

The obligation to contribute to, and maintain, the plan for these employees was established by negotiations with the County's competitive bargaining units and requires a contribution from the employee of 2 percent. The Facility's contribution requirement is 4 percent of employee gross wages.

Facility contributions for the plan years ended December 31, 2004, 2003, and 2002 were \$224,534, \$213,768, and \$188,834, respectively.

### Note 7 - Postretirement Benefits

The Facility provides postretirement medical and life insurance benefits for retired employees. Substantially all employees may become eligible for the benefits if they reach normal retirement age while working for the Facility. Currently, 12 retirees are receiving the benefits. Included in the Facility's operating expenses is approximately \$80,000 and \$62,000 for the cost of retirees' health and life insurance for each of the years ended December 31, 2004 and 2003, respectively.

# Hillsdale County Medical Care Facility

## Notes to Financial Statements December 31, 2004 and 2003

### Note 8 - Risk Management

The Facility is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Facility is self-insured for workers' compensation claims. Changes in the estimated self-insured liability for the past fiscal years ended December 31, 2004 and 2003 were as follows:

	<u>2004</u>	<u>2003</u>
Estimated liability - Beginning of year	\$ 200,000	\$ 200,000
Estimated claims incurred, including changes in estimates	219,265	248,333
Claim payments	<u>(219,265)</u>	<u>(248,333)</u>
Estimated liability - End of year	<u>\$ 200,000</u>	<u>\$ 200,000</u>

The Facility participates in the County's insurance plan with the Michigan Municipal Risk Management Authority risk pool for claims relating to general (including malpractice) and auto liability, auto physical damage, and property loss claims.

The Michigan Municipal Risk Management Authority (the "Authority") risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority that the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the County.



## **Additional Information**

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To the Hillsdale County Department  
of Human Services Board  
Hillsdale County Medical Care Facility

We have audited the basic financial statements of Hillsdale County Medical Care Facility as of December 31, 2004 and 2003. Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The schedules of net patient revenue and operating expenses are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the procedures applied in the audits of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moran, PLLC*

March 11, 2005

# Hillsdale County Medical Care Facility

## Schedule of Net Service Revenue

	Year Ended December 31	
	2004	2003
<b>Skilled Nursing Services</b>		
Daily net room revenue:		
Medicaid	\$ 7,755,241	\$ 8,039,330
Medicare	860,548	542,828
Private pay and other	921,143	914,270
Total daily net room revenue	9,536,932	9,496,428
Ancillary revenue:		
Pharmacy	208,666	154,770
Therapy services	1,319,475	1,049,505
Other ancillary services	119,667	67,826
Total ancillary revenue:	1,647,808	1,272,101
Gross skilled nursing services revenue	11,184,740	10,768,529
Revenue deductions:		
Provision for contractual discounts	1,013,866	1,050,852
Bad debt expense	164,981	390,888
Total revenue deductions	1,178,847	1,441,740
<b>Net Service Revenue</b>	<b>\$ 10,005,893</b>	<b>\$ 9,326,789</b>

# Hillsdale County Medical Care Facility

## Schedule of Operating Expenses

	Year Ended December 31			
	2004			2003
	Salaries	Other	Total	Total
Fringe benefits	\$ -	\$ 1,883,135	\$ 1,883,135	\$ 1,803,530
Administration	577,129	475,144	1,052,273	897,686
Plant operations	147,011	104,562	251,573	276,029
Utilities	-	265,939	265,939	217,118
Laundry	261,147	39,889	301,036	280,530
Housekeeping	340,357	29,404	369,761	359,072
Dietary	710,917	495,083	1,206,000	1,163,535
Medical records	19,391	-	19,391	15,183
Diversional therapy	275,171	20,489	295,660	256,896
Other ancillary services	-	30,506	30,506	17,016
Therapy services	232,407	427,671	660,078	528,991
Pharmacy	-	142,071	142,071	148,966
Nursing	3,663,976	598,308	4,262,284	4,074,574
Barber and beauty	-	93	93	65
Depreciation	-	288,466	288,466	253,177
Maintenance of effort	-	447,196	447,196	520,925
2004 totals	<b>\$ 6,227,506</b>	<b>\$ 5,247,956</b>	<b>\$ 11,475,462</b>	
2003 totals	<b>\$ 6,022,163</b>	<b>\$ 4,791,130</b>		<b>\$ 10,813,293</b>

March 11, 2005

To the Hillsdale County Department of Human Services Board  
Hillsdale County Medical Care Facility

In planning and performing our audit of the financial statements of Hillsdale County Medical Care Facility for the years ended December 31, 2004, we considered the Facility's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. The consideration we gave to the internal control structure was not sufficient for us to provide any form of assurance on it. In reviewing the Facility's processes and systems, we have identified several areas that may be improved upon to enhance Facility operations.

### **Accounts Receivable**

Resident accounts receivable are still an area of concern. The accounts receivable, net of prebills, are \$1.5 million, with 33% being more than 90 days old. Although progress has been made to reconcile detail subsidiary ledgers to those balances on the balance sheet, the older balances are still significant with approximately \$555,000 representing balances over 90 days old. Taking into consideration the total balance of accounts receivable at December 31, 2004, the average number of days it takes the Facility to collect its accounts is 55, which is well in excess of the averages we see at other MCF's, which runs around 35 days. However, these days in accounts receivable have improved approximately 30 days from December 31, 2003.

Care should be taken to post remittance advices properly and timely. Be cognizant of rate changes and adjusting for these items in the resident AR balances immediately upon notification. Addition follow-up should be made on all accounts over 90 days old. Accounts determined to be uncollectible should be submitted to the DHS Board for approval to write them off.

### **Disbursements**

During our testing of controls relating to cash disbursements, it was noted that several disbursements were made without an actual invoice, but rather a sheet of paper with a hand-written note. All disbursements should be supported by an actual invoice to ensure disbursements are only made for legitimate expenses and are made for the correct amounts. In addition, all invoices should be approved by appropriate department heads to verify invoices received relate to goods or services actually performed or received.

### **Payroll**

During our testing of controls related to the payroll system, it was noted that earned time reports are not maintained for each pay period. Earned time should be tracked just as vacation and sick time is tracked each pay period to ensure employee balances are accurate.

### **Census Records**

During our testing of controls related to revenue, it was noted the monthly census is maintained by hand as opposed to electronically. In reviewing monthly census, it was apparent that retroactive changes in payor type made the manual census difficult to read and determine an accurate count. We recommend the utilization of electronic spreadsheets to record monthly census to help ensure accuracy, efficiency, and reduce preparation time.

### **Sick and Vacation Records**

During our testing of vacation and sick accruals, it was noted that vacation and sick time are maintained manually. As with the monthly census, and other repetitive functions, we recommend the use of electronic spreadsheets to maintain vacation and sick time. The use of technology will help reduce potential errors as well as improve efficiency and preparation time..

### **Fixed Assets**

During our testing of fixed assets, it was noted that the Facility does not maintain an accurate fixed asset listing. Plante & Moran maintains a summary of the Facility's fixed assets from which we calculate depreciation expense. The Facility's listing obtained during the audit contained items which are not capitalized and did not contain assets that are capitalized. Furthermore, when asked to identify any possible disposals, the staff was unable to identify the items on the listing. We recommend that a member of the accounting staff be responsible for maintaining the fixed asset listing, as they will be knowledgeable as to whether or not an item is capitalized or not. As fixed assets are added or disposed of, these should be recorded on the listing. In addition, we recommend the Facility institute an identification mechanism and capitalization policy. Instituting a threshold for items to be capitalized will help minimize recordkeeping time by eliminating small dollar items and the identification system will provide ease when disposing of assets and produce an accurate fixed asset summary.

### **Flexible Benefit Account**

Per our review of bank confirmations, it was noted that a cash account for flexible benefits is not recorded on the general ledger. All cash accounts related to the facility should be recorded on the general ledger. This flexible benefit cash account should be offset with a related liability account.

### **Accounting Policies and Procedures Manual**

Although the Facility has an accounting policies and procedures manual, it is not specific, nor has it been updated in recent years or used as a reference. We recommend management revise the accounting policies and procedures manual, including providing specific job descriptions and responsibilities for each position. This review of policies, procedures, and positions may help to identify additional areas of improvement, ultimately leading to possible cost savings.

**Conflict of Interest Policy**

Through discussions with staff, it was noted the Facility does not have a conflict of interest policy. We recommend the Facility institute a conflict of interest policy and that conflict of interest statements be signed by appropriate personnel, including Board members on an annual basis. We would be happy to provide examples of such a policy.

**General Observation**

An overall observation of the business office is that the staff is constantly interrupted by phone calls and questions, which does not allow them to focus on their assigned tasks, be it billing, accounts payable or payroll. These distractions can lead to mistakes in postings and items being overlooked.

**Need to Improve Operating Results**

Through discussions with management, it was noted that the Facility is attempting to reinstitute the budget process. We recommend management prepare a balanced budget and closely monitored it throughout the year to improve the bottom line. As evident in the financial statements, the Facility has lost more than \$1M over the past two years. A concerted effort must be made to improve the financial position of the Facility and the budget process is an integral part of an improvement strategy.

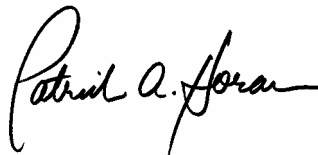
**Payroll Sysytem**

During the audit, it was noted that the current payroll system is not meeting the needs of the Facility and that the staff is interested in finding a system that will provide functions necessary to complete the payroll process in a timely, efficient, and accurate manner. Our technology consultants may be of assistance to the Facility in assessing the various types of software available that meet your needs and may also be involved in the proposal process. We would be happy to discuss this further with you.

If we can be of any assistance in clarifying or providing greater detail with regard to any of these areas, please give me a call at 269.567.4582

Very truly yours,

**PLANTE & MORAN, PLLC**

A handwritten signature in black ink, reading "Patrick A. Horan". The signature is fluid and cursive, with the first name "Patrick" being the most prominent part.

Patrick A. Horan, CPA  
Partner